SUMMARY

1. The economy of Hong Kong, China continues to be externally oriented and dependent on trade with the rest of the world. In 2023, Hong Kong, China ranks 10th among world traders in terms of value of trade in goods and services (2.5% of total world trade). The services sector is the main contributor to GDP (accounting for more than 90%) and employment (88.4%). The contribution of manufacturing to GDP and to employment is modest (1% and 2.1%, respectively).

2. Impacted by domestic and external shocks such as the COVID-19 pandemic, most GDP components posted negative growth rates in 2019 and 2020; the decrease in exports of goods and services was particularly noticeable. While the economy expanded in 2021 in response to the adoption of various policy responses and thanks to pre-crises buffers, such as a sufficient level of fiscal reserves, it contracted in 2022, due to the effect of the fifth wave of the COVID-19 pandemic, a deteriorated external environment, and tightened financial conditions. Private consumption, investment, and exports and imports of goods and services were all negatively impacted.

3. During the review period, government accounts retained strong fiscal and financial fundamentals; the fiscal reserve balance recorded surpluses during the whole period despite a shift to an expansionary fiscal stance in 2019-20, when there was an increase in public expenditure in response to the COVID-19 pandemic. The Government continued to adopt an expansionary fiscal policy in 2022.

4. Between 2018 and 2022, the value of the Hong Kong dollar against the US dollar was kept within the Convertible Zone (HKD 7.75 and HKD 7.85 against the USD) established by the Hong Kong Monetary Authority. Interest rates remained low between 2018 and 2021, but subsequently increased gradually as a consequence of the tightening of monetary policy in the United States.

5. Hong Kong, China recorded a current account surplus between 2018 and 2021 supported by an increase in primary income and a surplus in the services balance; the current account surplus narrowed in 2022 as merchandise trade reverted to a deficit and more than offset the increase in the services trade surplus.

6. Hong Kong, China is characterized by having a small production base and a highly specialized services industry; it depends on merchandise imports to meet its domestic consumption demands. Imports (mainly machinery and electrical equipment) for subsequent re-export are the main component of overall merchandise exports, accounting for 97.1% of total exports of goods in 2022. In terms of trade in services, Hong Kong, China maintained a substantial surplus over the review period, although it decreased from 8.7% of GDP in 2018 to 5.5% of GDP in 2022.

7. Hong Kong, China is ranked as the third-largest recipient of foreign direct investment (FDI) inflows. Hong Kong, China also serves as a significant conduit for China's investment flows. The British Virgin Islands continued to be the major source of inward FDI, followed by China, the Cayman Islands, and the United Kingdom.

8. The economy is expected to grow in 2023 amid the backdrop of China's economic recovery, a rebound in tourism stemming from the removal of COVID-19-related quarantine restrictions, and the resumption of normal travel with the rest of the world. Private consumption and private investment growth rates are expected to pick up, and the labour market is expected to improve. Challenges facing the economy include high inflationary pressure and monetary tightening in advanced economies, which may weaken growth momentum and have an impact on export of goods.

9. There have been no significant changes in the general overall government framework, and the same institutions maintain their roles with respect to Hong Kong, China's trade policy. Its trade, investment, and related policies leverage the 14th Five-Year Plan of China, which supports Hong Kong, China by reinforcing its competitive advantages in its four traditional areas (financial services, international transportation, trade, and legal and dispute resolution) and in four emerging sectors (innovation and technology, international aviation, regional intellectual property trading, and international cultural exchange). The authorities consider that the elements under the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area are, *inter alia*, key to greater integration and economic development.

10. Hong Kong, China continues to pursue a free and open trade policy and looks to the WTO for trade liberalization and safeguarding its rights. Participating in all aspects of the WTO's work has been important for Hong Kong, China to demonstrate its support for the multilateral trading system. It has also joined various new plurilateral initiatives and the Multi-Party Interim Appeal Arbitration Arrangement, and, more recently, accepted the Agreement on Fisheries Subsidies in August 2023.

11. Free trade agreements continue to be an important part of Hong Kong, China's trade policy with 8 agreements in place with 20 partners. During the review period, new agreements entered into force with the Association of Southeast Asian Nations (ASEAN), Australia, and Georgia. The existing agreement with Chile was amended to improve services commitments and the China and Hong Kong, China Closer Economic Partnership Arrangement added two new subsidiary agreements on goods and services. There is continued interest by Hong Kong, China to pursue FTAs through forging new agreements, and it has initiated negotiations with Peru and submitted its accession request to the Regional Comprehensive Economic Partnership. Hong Kong, China's FTA partners accounted for 61% of total merchandise imports and 69% of merchandise exports in 2022.

12. There are no specific laws on investment *per se* in Hong Kong, China, but FTAs and Investment Promotion and Protection Agreements (IPPAs) continue to be developed or improved and thereby contributed to the improvement of its investment framework. Three new IPPAs and two new FTAs with investment chapters entered into force during the review period. Hong Kong, China's investment promotion activities have been stepped up in recent years to include new institutional setups and initiatives targeting enterprises, investment, and talent. A number of new organizations or schemes were put in place over the review period for investment promotion purposes, including the Hong Kong Investment Corporation Ltd, the Office for Attracting Strategic Enterprises, and several funding schemes.

13. Regarding customs matters, Hong Kong, China had no significant changes to customs import procedures during the review period, although it continues to move towards electronic trade documents through a gradual implementation of the Trade Single Window (TSW). Currently in phase 2 of the implementation process, the TSW is expected to have 28 types of trade documents incorporated before reaching the final phase 3 implementation starting in 2026. The Agreement on Trade Facilitation was accepted in 2014 and trade-facilitating measures continue to be implemented; there are no procedures in place for advance rulings or expedited shipments. Hong Kong, China's Authorized Economic Operators (AEO) Programme continues to undergo expansion with new accredited AEOs and a growing number of Mutual Recognition Arrangements. A new registration regime for dealers in precious metals and stones came into force in April 2023 through the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

14. No laws, regulations, or administrative procedures exist specifically for valuing goods for customs purposes in Hong Kong, China. However, for goods subject to excise duties, a methodology for *ad valorem* duty assessment is contained in the Dutiable Commodities Ordinance, and for motor vehicles subject to the First Registration Tax System, a published retail price system is used for valuation. Hong Kong, China does not have any specific laws or regulations on non-preferential origin but maintains preferential rules of origin for most of its FTAs. An importer of goods is required to submit origin information in the import declaration. Preferential origin criteria vary according to each FTA but generally involve several determining criteria such as change in tariff classification and regional value content.

15. Hong Kong, China does not apply tariffs on imports, nor does it maintain any tariff rate quotas. Thus, its 7,805 tariff lines all have applied rates of zero; its WTO schedule has about half (47.6%) of these lines bound. All agricultural lines are bound, while 39.4% of non-agricultural goods are bound. Excise duties are charged on four categories of goods, (alcoholic liquor, tobacco, hydrocarbon oil, and methyl alcohol). The rates of these excise duties remained unchanged during the review period except for the excise duties on tobacco products, which increased in 2023 as a policy measure to curb tobacco use.

16. A number of import and export prohibitions and restrictions continue to be applied on certain goods generally due to health, safety, or environmental protection reasons, and to comply with obligations under international treaties and agreements. There were no significant changes to the lists of products subject to these measures during the review period, although new legislation was put in place to protect toothfish and to prohibit alternative smoking products and mercury or mercury mixtures. Licensing requirements are imposed on certain goods, most notably on imports and

exports of strategic commodities. New licensing requirements were enacted for firearms and ammunition.

17. For trade remedies, there have been no developments since the last Review; Hong Kong, China does not have any laws, regulations, or authorities for the application of anti-dumping, countervailing, or safeguard measures. However, Hong Kong, China's FTAs generally contain some provisions on trade remedies, often reaffirming rights and obligations under the WTO Agreements.

18. Customs procedures on exports did not change during the review period. Similar to imports, export processes are increasingly facilitated through electronic means, including the TSW. Customs duties are not charged on exports; however, the Clothing Industry Training Levy on exports is charged for most apparel items manufactured in Hong Kong, China. The rate of duty remains at HKD 0.30 per HKD 1,000 f.o.b. value. Certain goods are subject to export controls, such as export licences/permits, to, *inter alia*, comply with international obligations or protect public health or the environment.

19. Hong Kong, China has a number of export support and promotion activities aimed to help exporters including a government-supported body for export promotion, funds specific to SMEs and branding promotion, and a temporary COVID-19 pandemic–driven subsidy fund for conferences and conventions. The long-standing Hong Kong Export Credit Insurance Corporation continued to provide export insurance during the review period, and also commenced offering export guarantees through the Export Credit Guarantee Programme in 2022. A Commercial Data Interchange mechanism was launched in 2022 to facilitate access to finance for enterprises, in particular for SMEs.

20. Tax and non-tax incentives programmes in the form of financial/funding support, tax reduction for certain business activities, and loans and grants are some of the measures maintained by Hong Kong, China to support industry. Most are long-standing programmes, although in some cases, the scope has been expanded, or additional programmes/measures have been introduced, such as temporary measures during the COVID-19 pandemic. For example, the Anti-epidemic Fund provided HKD 228.5 billion over six rounds of funding to support various sectors of the economy, e.g. the tourism industry, wholesale traders, and the convention and exhibition industry.

21. There has not been any significant change in the organization or structure of Hong Kong, China's standards, testing, and conformity assessment entities since the last Review. The Innovation and Technology Commission continues to promote internationally accepted standards and conformity assessment measures. Professional associations or institutions lead the development of voluntary standards, which are based on the needs or concerns identified by the industry. Regulatory authorities continue to issue standards as necessary and incorporate technical regulations into laws when needed. Further, the laws on technical regulations or products subject to technical regulations have similarly not changed much except for ordinances on vehicle construction and maintenance, construction of buildings and associated works, dangerous goods, and certain telecommunications.

22. Regarding sanitary and phytosanitary requirements, several developments occurred during the review period, including legislative changes, new structures, and the introduction of a new electronic portal. The Environment and Ecology Bureau was established in July 2022 with expanded policy functions on environmental hygiene, food safety, agriculture and fisheries, and veterinary public health, beyond those of the previous Food and Health Bureau. Amendments were made to the Food Adulteration (Metallic Contamination) Regulations, the Harmful Substances in Food Regulations, and the Food and Drugs (Composition and Labelling) Regulations.

23. Hong Kong, China has notified that it does not have any state trading enterprises within the meaning of the Understanding on Article XVII of the GATT 1994. However, a long-standing Fish Marketing Organization remains in place. Hong Kong, China has 15 enterprises owned or controlled by the Government that are referred to as government business enterprises (GBEs), which take different legal forms and operate across a number of sectors. The number of GBEs and their level of government ownership remained stable over the review period.

24. Hong Kong, China remains a party to the Agreement on Government Procurement with market access schedules contained therein and a stated government policy objective of achieving best value

for money and maintaining open and fair competition in procurement. A new pro-innovation government procurement policy was launched and implemented during the review period that has wide-ranging changes including promoting innovation in procurement, amending the "value for money" concept, and assigning dedicated weighting to environmental protection, social responsibility, and governance in assessing tenders, among others. Other developments include flexibility of payment provisions in response to the pandemic, a revamped contractor management system, a Green Procurement policy, and the launch of the pilot electronic tendering system.

25. The overall structure and framework of Hong Kong, China's intellectual property (IP) protection entities have not changed; however, there were amendments to various IP laws or regulations related to, *inter alia*, a new and direct filing route, steps towards implementing the international registration system for trademarks pursuant to the Madrid Protocol, enhanced copyright exceptions, and prohibitions on the registration of certain designs. Other developments include Hong Kong, China's continued efforts to further establish itself as a regional IP trading centre, the adoption of flexibilities and stepping up efforts to promote IP in response to the pandemic, and carrying out various IP promotion activities.

26. The economic significance of the agricultural sector in Hong Kong, China is modest, and it continues to rely mainly on imports for its food supply. In terms of mining and energy, Hong Kong, China produces a limited amount of primary energy, and is a net energy importer. During the review period, it revised its renewable energy policies to encourage private-sector investment in renewable energy. Most enterprises in the manufacturing sector (98.6%) are small or medium-sized, employing less than 100 persons each.

27. The services sector is the backbone of Hong Kong, China's economy. During the review period, its trade balance in financial and insurance services was positive and growing. Over the same period, Hong Kong, China revised its anti-money laundering and counter-financing of terrorism frameworks, continued to implement international supervisory standards, and created a framework for fintech.

28. The telecommunications sector is highly developed and benefits from the latest technologies (e.g. 5G and fibre-based networks). Between 2018 and 2021, the gross output of the telecom industry expanded, and exports and imports in the sector also increased. In the same period, the authorities adopted policies to simplify the licensing framework to facilitate adoption of innovative services by the industry, strengthen the protection of underground telecommunications infrastructure, and introduced subsidy schemes for the early deployment of 5G to improve efficiency of operations.

29. Several pieces of legislation related to maritime transport were enacted during the review period to meet the requirements of international organizations or conventions in which Hong Kong, China participates.

30. In September 2022, the Travel Industry Authority took over the licensing and trade regulatory functions from the Travel Agents Registry and the Travel Industry Council of Hong Kong, respectively. Facing the decline in visitor arrivals between 2020 and 2021 due to the COVID-19 pandemic, the Hong Kong Tourism Board gave substantial resources to promoting local tourism and boosting consumption.